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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
AND THE CALIFORNIA ENERGY COMMISSION**

Order Instituting Rulemaking to Implement the
Commission's Procurement Incentive Framework
and to Examine the Integration of Greenhouse Gas
Emissions Standards into Procurement Policies.

Rulemaking 06-04-009
(Filed April 13, 2006)

Energy Commission Docket 07-OIIP-01

**COMMENTS OF EL PASO NATURAL GAS COMPANY AND MOJAVE PIPELINE
COMPANY ON PROPOSED DECISION**

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COMMENTS OF EL PASO NATURAL GAS COMPANY AND MOJAVE PIPELINE COMPANY ON PROPOSED DECISION

In accordance with Rule 14.3(a) of the Commission's Rules of Practice and Procedure, El Paso Natural Gas Company (EPNG) and Mojave Pipeline Company (Mojave) submit their joint comments on the "Interim Opinion on Greenhouse Gas Regulatory Strategies" issued by President Peevey on February 8, 2008 (Proposed Decision).

Introduction and Background

The EPNG and Mojave pipeline systems provide over 30% of the natural gas consumed in California.¹ The two companies are subsidiaries of El Paso Corporation (collectively, "El Paso"), which is organized around two core businesses—pipelines and exploration and production. El Paso's pipeline group operates a network of nearly 43,000 miles of pipeline, comprising over 20% of the interstate gas pipeline infrastructure in the country. El Paso has operations in over thirty (30) states and several federal jurisdictions.

El Paso currently helps satisfy, and will continue to help meet, California's growing demand for clean-burning natural gas through its extensive network of natural gas pipelines and future natural gas projects. As a Climate Action Leader™ and member of the California Climate Action Registry (CCAR), El Paso has been in the forefront of efforts to address the concerns being expressed by public and governmental stakeholders over the issue of GHGs. El Paso has been an active participant in the development of California regulations related to GHG emissions and has commented extensively in the CPUC and CEC processes, including prior comments in this proceeding on a number of issues. El Paso is also active in the Western Climate Initiative (WCI) process.

¹ EPNG and Mojave are interstate pipelines subject to federal rather than state utility commission jurisdiction. However, we will continue to cooperate with state agencies such as the Commission as appropriate.

Comments

El Paso supports the Proposed Decision as it relates to the Section 4, “GHG Policies for the Natural Gas Sector”. In summary, that portion of the Proposed Decision recommends that, for the natural gas sector, the Air Resources Board (ARB) “rely on programmatic measures to achieve emission reductions and not include the natural gas sector in a multi-sector GHG emissions cap-and-trade system at this time.”² This conclusion is appropriate and well reasoned. The Commission should adopt the Proposed Decision, as it will provide a sound basis for future regulation of emissions from natural gas consumption.

As we have consistently stated:

1. El Paso supports a “hybrid” economy wide cap-and-trade greenhouse gas regulatory structure through a combination of cap-and-trade structure for large CO₂ emitters (i.e. a downstream, point of emission design), offset programs for fugitive emissions and through policies and measures to encourage end use energy efficiency in the other segments of the natural gas value chain. The “natural gas sector” includes several different sectors of the economy with very different physical, economic, and regulatory characteristics. Any regulatory mechanism adopted for the natural gas sector that is based on an “upstream” design, aims to employ fuel consumption in the economy as a proxy for emissions. This is theoretically the economic equivalent of requiring allowance retirement at the point of emission, but may not be exactly the same in practice as direct regulation of the emissions at the emitting sources. Under this design, the expectations for reductions are highly dependent on the effective transmittal of the compliance price signals experienced by the select few upstream entities through the economy. This is a flawed theory due to inadequate transmittal of price signal, coverage, fairness, integrity

² Proposed Decision, Interim Order ¶9.

and administrative issues. All this could potentially lead to higher natural gas prices to the different sectors in the natural gas value chain without any clear tangible environmental benefit. In addition, any effort to make interstate gas pipelines the point of regulation under an “upstream” design would raise significant legal and regulatory issues the resolution of which – at best – would likely substantially delay the implementation of any GHG regulatory program by California.

2. While El Paso supports a “hybrid” structure, we believe that regulation of GHG emissions should be preceded by a period of careful measurement of emission baselines and include only those sources into the cap-and-trade program which have low emissions uncertainties. Most fugitive emissions and many process emissions cannot be measured with sufficient accuracy. Thus, inclusion of such sources could negatively impact the integrity of the cap-and-trade program.

The Proposed Decision is fully consistent with both of these positions.³ El Paso strongly supports the Proposed Decision and recommends that it be adopted by the Commission. We believe that adoption of the Proposed Decision will contribute to a highly efficient and cost-effective approach to GHG reductions in California.

Conclusion

EPNG and Mojave support the Commission’s and the California Energy Commission’s efforts to develop recommendations to present to the ARB as it implements AB 32. We believe that any ultimate GHG regulatory scheme must incorporate the above key principles as implicitly recognized in the Proposed Decision.

³ See, in particular, Proposed Decision, Findings of Fact Nos. 34-37.

Respectfully submitted,

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